



FirstRand

FIRSTRAND CLIMATE CHANGE POLICY – 30 JUNE 2022

SCOPE

This policy sets out FirstRand Limited's (FirstRand's or the group's) climate change approach and applies to all of its legal entities and third-party funds under management. The policy is anchored in science and data, and the commitments contained therein, as well as FirstRand's transition path, are grounded in credible country- and industry-specific just transition scenarios. These scenarios are informed by specialist input and engagement with clients, government bodies and broader stakeholders.

This policy will be reviewed annually to ensure that FirstRand's position remains aligned with the rapid changes occurring globally, regionally and domestically; with commitments in respect of nationally determined contributions (NDCs) under the Paris Agreement made by the countries in which the group operates; and with changes in relevant regulations.

This policy forms part of FirstRand's suite of environmental, social and governance policies¹. Sector-specific policies, including the energy and fossil fuel financing policy, are sub-policies of this document. Since climate risk is an amplifying factor in other risk types, additional climate risk considerations are also included in the group's risk management framework as well as in underlying risk type frameworks.

THE IMPORTANCE OF CLIMATE CHANGE

Global greenhouse gas (GHG) emissions have accelerated over the past 50 years. This has led to rising global temperatures. Although the outcomes of climate change are difficult to predict, scientific evidence indicates that increasing temperatures aggravate environmental risks such as extreme temperatures, flooding and drought. South Africa is particularly vulnerable, as mean annual temperatures have increased by more than double the observed global average since 1990.

The 2015 Paris Agreement, a binding international treaty which was adopted by 196 countries (including South Africa), looks to cap temperature increases to well below 2°C above pre-industrial levels and to pursue efforts to limit temperature increases to 1.5°C. If achieved, this has the potential to significantly reduce the risks and impacts of climate change. The Paris Agreement is implemented through NDCs that articulate each country's commitment to reduce GHG emissions, including details on the emissions trajectory, as well as adaptation and mitigation plans. The Paris Agreement takes into account the different circumstances of each country, and expressly notes that it will be implemented to reflect equity and the principle of common but differentiated responsibilities. In addition, it acknowledges that peaking of emissions may take longer for developing countries.

¹ The following additional policies are available on the FirstRand website: FirstRand environmental sustainability policy statement; FirstRand policy statements relating to restrictions on the financing of certain sectors/activities; FirstRand policy on energy and fossil fuel financing.

Most large, industrialised nations have formally committed to net-zero targets by 2050 or earlier, including the UK, where FirstRand operates. The majority of FirstRand's operations are based in South Africa, where the government regards climate change as a significant socio-economic development threat and has committed to achieving the objectives of the Paris Agreement through its national Low-Emission Development Strategy 2050 and supporting policy and technical papers.

FIRSTRAND CLIMATE AMBITION AND COMMITMENTS

FirstRand believes that climate change is one of the defining issues of this century. It is a global crisis that has the potential to alter geopolitics and interstate relations, disrupt business models and markets across all sectors, and impact the livelihoods and well-being of individuals across the world. FirstRand acknowledges that the group must be part of the solution by supporting climate resilience and a just transition to a low-carbon world.

Overall ambition

FirstRand supports the Paris Agreement and commits to aligning its financial flows to help the group's operating jurisdictions realise their NDCs. As these plans are updated and become more ambitious, FirstRand will also update its targets and policies with more detail.

It is the long-term ambition of FirstRand to be net zero by 2050 for scope 1, 2 and 3 emissions. The 2050 net-zero commitment includes financed emissions and operational emissions. Operational emissions from the group's South African operations are expected to be net zero by 2030. Financed emissions refer to emissions associated with FirstRand's on-balance sheet loans and advances (excluding exposures to sovereigns and financial institutions). The group will work towards this ambition through:

- continuing detailed science- and data-driven research, in collaboration with industry bodies, specialists and governments on the optimal decarbonisation transition paths, enabling FirstRand to align its financing flows to the most appropriate scenarios;
- facilitating the necessary transition in the real economy through active client engagement, and offering products and services to support clients' transition to a low-carbon world;
- understanding the societal impacts of the transition to ensure that its financing activities are supportive of a just energy transition;
- proactively and influentially engaging on corporate and industry (financial and real economy) action, as well as public policies, to support the transition of sectors in a way that considers both climate science and the associated social impacts; and
- supporting innovation, the near-term deployment of existing viable technologies, and scaling up the financing of credible, safe and high-quality climate solutions.

Specific commitments

The following specific commitments are made in support of FirstRand's overall ambition. The group:

- is committed to working in partnership with relevant government institutions in the jurisdictions in which it operates to develop sustainable financial solutions that promote positive climate outcomes, taking into account regional contexts, sustainable development needs and the need for a just transition to a low-carbon world;
- is committed to supporting its clients as they transition to low-carbon outcomes. The group has invested in enhanced capabilities in its sustainable finance product set and people capabilities to provide such support across both environmental and social impact dimensions. The group will work with its clients in climate-sensitive sectors to

ensure that adequate transition plans are implemented to mitigate adverse climate impacts. An enhanced due diligence will be performed on new financing in these sectors;

- will in a phased manner rebalance new origination in its lending portfolios towards lower-carbon outcomes and increase the proportion of green assets and transition financing of existing assets on its balance sheet;
- recognises that energy consumption from fossil fuels – and coal in particular – is the biggest contributor to greenhouse gas emissions and constitutes a priority area to address in global decarbonisation pathways. The group is committed to managing its transition away from fossil fuels in alignment with its science-based base case transition path as set out in the energy and fossil fuel financing policy, and has put in place short-, medium- and long-term commitments to that end:
 - in 2021 FirstRand ceased to finance new coal-powered stations and introduced a 2% cap on loans and advances pertaining to coal mining and coal-fired power as a percentage of group loans and advances. The group will reduce the cap on its coal financing drawn advances from 2% to 1.5% of advances from 2026 onwards;
 - in 2022 FirstRand introduced a limit of 2.5% pertaining to upstream oil and gas advances and underwriting exposures relative to total group loans and advances; and
 - more granular commitments, including targets for new sustainable finance facilitation (covering lending, advisory and capital markets activities) and targets for client engagement on climate change, are included in FirstRand's Task Force on Climate-related Financial Disclosures (TCFD) report;
- will continue to build out its internal expertise and relevant tool sets to better enable the identification, measurement and management of FirstRand's impact on the climate, both direct and financed, and its ability to perform stress tests to determine the impact of climate change on group portfolios. The group will ensure that it appropriately manages its in-force portfolio's climate risk profile and new credit origination in line with its overall risk appetite;
- is committed to continue the active management and reduction of its own operational carbon emissions in line with science-based targets. It has materially improved its ability to measure its scope 3 financed emissions across product classes and sectors and will incrementally publish more detailed financed emissions data and assumed transition pathways in its TCFD reports each year; and
- remains committed to meeting its ambitions as set out in its published climate risk roadmap and its continued engagement with stakeholders.

ENGAGEMENT AND FEEDBACK

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